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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

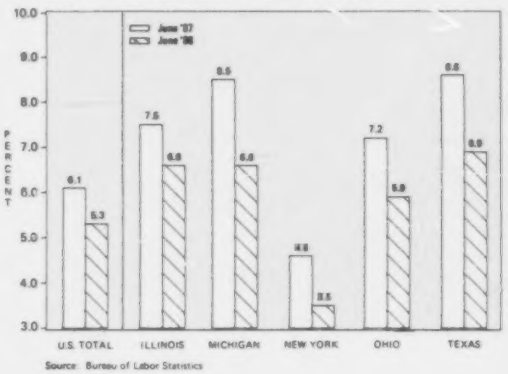
Employment Posts a Solid Gain

Despite widespread expectations that business conditions would soften in the second quarter compared with the heady growth pace of the first, the latest batch of economic statistics and surveys casts doubt on this assumption. Last month, the unemployment rate dipped to a 14-year low, the number of nonfarm payroll jobs expanded at a brisk clip, automobile and chain store sales bounced higher and a survey of the nation's purchasing managers revealed that the economy was expanding at its fastest pace since December. While this evidence virtually ensures that the economy ended the second quarter on a strong note, it also does something else: It puts pressure on the Federal Reserve to once again tighten the monetary screws in order to keep inflation in check. Indeed, Fed Chairman Alan Greenspan acknowledged just this point in Congressional testimony last week when he said that under current circumstances "... policy might be advised to err more on the side of restrictiveness rather than of stimulus".

Although the potential for slower growth, steady monetary policy and stable interest rates in coming months has not completely vanished, the likelihood of this happening has diminished somewhat in the face of the strong June employment report. According to the Labor Department, the jobless rate declined from 5.6 percent of the civilian labor force in May to 5.3 percent in June, bringing the unemployment rate to its lowest level since May 1974. What is more, total nonfarm payroll employment rose by a hefty 346,000 in June, a monthly gain that is some 15 percent higher than the January-May monthly average increase of just a shade more than 300,000.

Virtually all areas of the country are now being affected by the surge in jobs and the decline in the jobless rate, a stark contrast with the situation of two years ago when large segments of the goods-producing side of the economy, and a sizable number of states were mired in their own mini-recession. As shown in the chart, the downturn in the national unemployment rate has been mirrored far beyond the services-oriented Northeast or a small number of rapidly growing Sunbelt states; the revival of industrial America and manufacturing jobs has prompted sizable declines in the unemployment rate of such states as Illinois, Ohio and Michigan—each of which had seemingly been bypassed for a time by this business expansion.

UNEMPLOYMENT RATE NATIONWIDE AND IN FIVE SELECTED STATES



Source: Bureau of Labor Statistics

Will The Federal Reserve Respond?

The tightening of the national and regional labor markets is only one sign of the current economic vigor. There are others, ranging from a pickup in automobile sales at the end of June, to rising levels of capital spending, to a booming export sector. Indeed, all this has fueled a growing belief in the financial markets that inflation pressures are building, another round of monetary policy tightening is imminent and short-term interest rates will soon be heading higher. In the view of many, the only remaining questions are the degree of restraint and its timing.

At first glance, this line of reasoning has a straightforward ring of truth about it. After all, despite the fact that this is an election year and memories of the October 1987 global stock market crash are still fresh, the Fed has already implemented three modest tightenings of the monetary reins so far this year. What harm could another round of restraint do? Certainly, there seem to be plenty of reasons to justify such a step,

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including the tightening of the labor markets, the ever-larger number of industries operating at, or close to capacity and the ongoing rise of commodity prices. All the risks, as pointed out by Chairman Greenspan, seem to be on the side of even faster growth and accelerating inflation.

Some Reasons For Hesitation

On closer examination, however, there are some equally good reasons as to why the Fed may hesitate before tightening policy again and, if it decides to do so, why any such step will be modest. Part of the reason lies in the same June employment report which sparked so much of the current speculation that monetary policy will be firmed. For although total employment continues to soar, wages have not; the Average Hourly Earnings Index actually eased a bit in June compared with May levels and during the past 12 months is up by less than 3½ percent. In the absence of a major acceleration in wages growth, the economy should be able to sidestep an inflationary spiral.

So, too, the Fed is unlikely to overreact to rising industrial commodity prices. For one thing, the recent price advance may be

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	183,518	– 1,147	+ 9,595
New York City (7/6/88)	37,270	+ 239	+ 117
Commercial Paper (7/6/88)	415,245	+ 1,461	+ 70,033

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	300,225	– 316	+10,459
New York City (7/6/88)	57,204	+ 489	– 1,509

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/29/88)	892,370	+ 43	+35,744
New York City (7/6/88)	173,624	– 731	–29,642

Financial Markets

	Friday 7/15/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.90%	+ .05	+ 1.20
180-Day Bills†	7.40	+ .17	+ 1.56
Longest Bills†	7.78	+ .02	+ 1.28
Recent Issues:			
8S 6/30/90	8.26	+ .03	
8 1/4S 6/30/92	8.56	+ .02	
9S 5/15/98	9.07	+ .04	
9 1/8S 5/15/18	9.17	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (7/14/88)	7.77%	+ .02	+ .11
Blue List Total ($ Million)	$1,270	– $ 8	–$ 183
30-Day Visible Supply ($ Million)	$1,911	– $354	–$ 373
Total	$3,181	– $362	–$ 556
Corporates:			
Moody's Aa Composite (7/14/88)	10.28%	+ .07	+ .68
30-Day Visible Supply ($ Million)	$1,710	+ $935	–$3,307
Stocks:			
Dow-Jones Averages:			
Industrials	2,129.45	+ 23.30	–380.59
Transportation	892.77	+ 3.58	–152.94
Utilities	179.65	+ 1.13	– 25.32
65 Stocks	794.16	+ 6.58	–137.76
N.Y.S.E. Composite Index	153.65	+ .84	– 23.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	175,278	+ 11,880	–17,295

*34% Taxable equivalent 11.77%.

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/15/88	Week Ago
Overnight	7.69%	7.38%
1 month	7.94	7.75
3 month	8.25	8.00
6 month	8.44	8.19
1 year	8.69	8.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/15/88)	Currency Per U.S. $	Week Ago
Belgium	39.03	38.29
Canada	1.2090	1.2100
France	6.2875	6.1560
Germany	1.8675	1.8305
Italy	1372.00	1355.00
Japan	134.75	132.80
Mexico	2273.00	2273.00
Netherlands	2.1045	2.0519
South Korea	725.90	726.20
Switzerland	1.5495	1.5325
Taiwan	28.66	28.76
U.K.*	1.6850	1.7035

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/15/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.9%	–2.2%

partially due to speculative spillover from the drought-induced runup in the price of such agricultural commodities as wheat and corn. Wetter weather alone could deflate some of this price bulge and, in any event, it is unlikely that the Fed would launch a major policy initiative simply in response to the effects of unanticipated weather trends. For another, the ascent of commodity prices has yet to spread to the prices of precious metals, perhaps the most sensitive barometer to shifts in inflation psychology. The gold price, for example, currently stands some 10 percent below the price prevailing at the beginning of this year.

Finally, even the dollar's current strength in the foreign exchange markets might temper the tightening enthusiasm of the central bank, especially such a overt move as hiking the discount rate. Nudging interest rates higher here could boost the dollar even further (Financial Digest–July 1, 1988) which, while having the benefit of restraining imported inflation, will eventually impede efforts to export our way out of today's huge foreign trade deficit. For these reasons, while the Fed may decide to again snug monetary policy, the odds favor that any move will be neither hasty nor dramatic. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/13/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	236.315	+ .034	+19.393
Loans to Depository Inst.	3.878	+ .444	+ 3.205
Float	.920	+ .605	+ .251
Total Reserve Bank Credit	256.067	+ 1.203	+22.013
Treasury Deposits with Federal Reserve Banks	4.148	– .538	– 1.537
Currency in Circulation	237.232	+ 1.049	+20.027
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.945	+ .019	+46.574
	7/13/88		
Member Bank Reserves:			
Total Reserves Held	62.162	+ 1.763	+ 3.675
Excess (Deficiency)	.754	– .296	+ .282
Net Borrowed Reserves	.562	– 1.092	+ .599
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (7/4/88)	777.5	+ 6.1	+ 4.6
M2 (7/4/88)	3,022.9	+ 6.0	+ 5.9
M3 (7/4/88)	3,806.5	+ 5.5	+ 6.1
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/15/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.74%	7.06%	7.28%
* Federal Agencies	7.65	7.70	7.80
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.58	7.95	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	8.30	8.45

‡ Finance Company Paper–Prime

5- 14 days	7.00%
15- 29 days	7.38
30- 59 days	7.50
60- 89 days	7.63
90-179 days	7.63
180-239 days	7.70
240-270 days	7.70

‡* Bankers' Acceptances

Aug.	7.71%
Sep.	7.75
Oct.	7.81
Nov.	7.86
Dec.	7.93
Jan.	7.98

‡ Industrial Paper–Prime

30- 89 days	7.83%
90-120 days	7.85

Federal Funds Effective Rate 7.90%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'88	$ 4,665	$ 4,607	$ 4,378
Gross National Product (1982 Dollars)*	1st Q'88	$ 3,915	$ 3,881	$ 3,772
Percent Change, Annual Rate	1st Q'88	3.6	4.8	4.4
Change in Consumer Prices*	May '88	3.6%	4.8%	4.8%
Change in MH Cost of Living Index	May '88	4.8%	9.6%	4.8%
Change in Producer Prices*	Jun '88n	4.8%	6.0%	1.2%
Civilian Employment (Thousands of Persons) †	Jun '88n	115,018	114,195	112,300
Unemployment as % of Civilian Labor Force †	Jun '88n	5.3%	5.6%	6.1%
Personal Income*	May '88	$ 3,954	$ 3,941	$ 3,709
Leading Indicators Composite Index (1967=100) †	May '88	192.6	192.8	188.6
Industrial Production Index (1977=100) †	Jun '88n	136.6	136.1r	129.1
Net Change in Consumer Installment Credit †	May '88n	$ 2.42	$ 3.85	$ 1.16
U.S. Merchandise Trade Balance †	May '88n	–$ 10.93	–$ 10.30	–$ 14.07
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	May '88	1,384	1,576	1,599
New Construction Expenditures*	May '88	$ 407.1	$ 402.7	$ 397.9r
Total Business Inventories †	May '88n	$ 728.4	$ 724.0r	$ 677.3r
Total Business Sales †	May '88n	$ 483.7	$ 479.5r	$ 448.5r

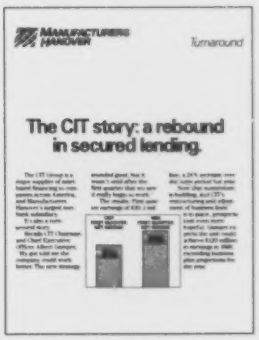
*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

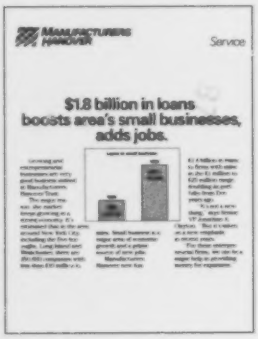
MANUFACTURERS HANOVER

Momentum

Success stories

Coming off a record first quarter, Manufacturers Hanover continues to move steadily ahead. The total story is made up of many stories, the contributions of all our people using all their skills and the resources of the organization to the maximum. Here are some of those components of success.





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